MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2015/2016

BAC 2664 – AUDITING

(All sections / Groups)

17 OCTOBER 2015
2.30 pm to 5.30 pm
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 5 pages with 5 Questions only.
2. Attempt all **FIVE** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

Question 1

(a) During the weekend, when you went to a restaurant which serves rice and various local dishes, you observed an unusual practice that was being carried out in the restaurant.

Once you have selected the food, an employee of the restaurant totals the food purchased and enters the total amount on a bill. The employee asks you for the number of persons in your group and writes the number of persons on the bill. He hands you the bill and asks you to pay to the cashier near the entrance, when you are leaving.

After completing the meal, you decide you want a piece of cake and coffee, so you return to the cafeteria line, select your food and again go through the line. The employee goes through the same procedures but this time he staples the second bill to the original bill and returns them to you.

When you are leaving with your family members after eating, you hand the stapled bills to the cashier who totals the two bills, takes your money, counts the money and enters the amount into the cash register and puts the bills on a spindle.

Required:

i) Explain THREE internal controls that the restaurant has instituted for its operations.

(6 marks)

ii) Discuss how the manager of the restaurant evaluates the effectiveness of the controls.

(4 marks)

iii) Explain the costs and benefits of the restaurant's system.

(4 marks)

(b) A vendor's invoice was paid twice for the same shipment. The second payment arose because the vendor sent a duplicate copy of the original invoice, two weeks after the payment was due.

Required:

For the misstatement above:

i) Identify one or more types of controls that were absent.

(2 marks)

ii) Identify the transaction-related audit objectives that have not been met.

(2 marks)

iii) Suggest a control to correct the deficiency.

(2 marks)

(TOTAL: 20 MARKS)

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Question 2

(a) The Malaysian Accounting Standards Board requires that all public listed companies in Malaysia apply the Financial Reporting Standards (FRS) when preparing the company's financial statements.

Required:

(i) Explain the consequences of non-compliance with Financial Reporting Standards in the preparation of financial statements under the Companies Act 1965.

(6 marks)

(ii) Explain the consequences of non-compliance with Financial Reporting Standards in the preparation of financial statements under the Securities Industry Regulations 1999.

(9 marks)

(b) Discuss the distinction between accounting and auditing.

(5 marks)

(TOTAL: 20 MARKS)

Question 3

(a) Azmi & Co has been engaged to perform a special audit for Star Bright Sdn Bhd which leases from ABC Sdn Bhd the property that it uses as its business premises. The lease agreement stipulates that the monthly rental shall be based on a minimum rental plus a percentage of the gross sales per month. In compliance with the lease agreement, Star Bright Sdn Bhd has requested Azmi & Co. to audit the company's sales as a basis for verifying the rental payments for year ended 31 December 2014. Azmi & Co. is provided with the sales schedule for the year and the auditors have gathered sufficient, appropriate audit evidence to be satisfied that the sales schedule presents fairly the gross sales of Star Bright Sdn Bhd for year ended 31 December 2014.

Required:
Draft the auditor's report to accompany the sales schedule of Star Bright Sdn Bhd.

(6 marks)

(b) The following are commonly performed tests of controls and substantive tests of transactions audit procedures in the sales and collection cycle:

i. Account for a sequence of shipping documents and examine each one to make sure that a duplicate sales invoice is attached.

ii. Account for a sequence of sales invoices and examine each one to make sure that a duplicate copy of the shipping document is attached.

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iii. Obtain the prelisting of cash receipts and trace amounts to the cash receipts journal, testing for names and amounts.

iv. Trace selected credits from the accounts receivable master file to the cash receipts journal and test for dates and amounts.

v. Trace selected sales invoice numbers from the sales journal to the bill of lading and test for customer name, product description and quantity.

vi. Examine the approved price list in the inventory master file for accuracy and proper authorization.

vii. Observe whether monthly statements are sent.

Required:

I). Identify whether each audit procedure is a test of control or a substantive test of transactions.

(3.5 marks)

II). State which of the six transaction-related audit objectives each of the audit procedure fulfils.

(7 marks)

III).Identify the type of evidence used for each audit procedure.

(3.5 marks)

(TOTAL: 20 MARKS)

Question 4

Introduction

Top Rubber Sdn Bhd is a manufacturer of hand gloves and the company has been trading for over 40 years. They sell to a variety of customers across the country. The company's year-end is 31December 2014.

The company has a large manufacturing plant, four large warehouses and a head office. Upon manufacture, the hand gloves are stored in one of the warehouses until they are despatched to customers. The company does not have an internal audit department.

Sales ordering, goods despatched and invoicing

Each customer has a unique customer account number and this is used to enter sales orders when they are received in writing from customers. The orders are entered by an order clerk and the system automatically checks that the goods are available and that the order will not take the customer over his credit limit. For new customers, a sales manager completes a

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credit application; this is checked through a credit rating agency and a credit limit entered into the system by the credit controller. The company has a price list, which is updated twice a year. Larger customers are entitled to a discount. This is agreed by the sales director and set up within the customer master file.

Once the order is entered into the system an acceptance is automatically sent to the customer by mail/email confirming the goods ordered and a likely despatch date. The order is then sorted by address of customer. The warehouse closest to the customer receives the order electronically and a despatch list and sequentially numbered goods despatch notes (GDNs) are automatically generated. The warehouse team packs the goods from the despatch list and, before they are sent out, a second member of the team double checks the despatch list to the GDN, which accompanies the goods.

Once despatched, a copy of the GDN is sent to the accounts team at head office and a sequentially numbered sales invoice is raised and checked to the GDN. Periodically a computer sequence check is performed for any missing sales invoice numbers.

Fraud

During the year a material fraud was uncovered. It involved cash/cheque received from customers being diverted into employees' personal accounts. In order to cover up the fraud, cash/cheque received from subsequent unrelated customers would then be recorded against the earlier outstanding receivable balances and this cycle of fraud would continue. The fraud occurred because two members of staff 'who were related' colluded. One processed cash receipts and prepared the weekly bank reconciliation; the other employee recorded customer receipts in the sales ledger. An unrelated sales ledger clerk was supposed to send out monthly customer statements but this was not performed. The bank reconciliations each had a small unreconciled amount but no-one reviewed the reconciliations after they were prepared. The fraud was only uncovered when the two employees went on holiday at the same time and it was discovered that cash receipts from different customers were being applied to older receivable balances to hide the earlier sums stolen.

Required:

(a) Recommend FIVE tests of controls the auditor would normally carry out on the sales system of Top Rubber Sdn Bhd **AND** explain the objective for each test.
(10 marks)

(b) Describe FIVE substantive procedures the auditor should perform to confirm Top Rubber Sdn Bhd's year-end receivables balance.
(5 marks)

(c) Describe FIVE substantive procedures the auditor should perform to confirm Top Rubber Sdn Bhd's revenue.
(5 marks)

(TOTAL: 20 MARKS)

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Question 5

(a) The audit firm, Betty & Co. are the auditors of Volare Sdn. Bhd. The partners of the audit firm had serious misunderstanding with the management regarding the interpretation of some of the important accounting standards. The directors of Volare Sdn. Bhd. are not satisfied with the conduct of their present auditors and intend to remove them immediately. The directors have approached your audit firm, Melissa & Co, to act as their auditors.

Required:

Advise the directors of Volare Sdn. Bhd. on the procedures under the Companies Act, 1965 in respect of the following matters:

(i) The removal and the rights of Betty & Co.

(6 marks)

(ii) The appointment of Melissa & Co in place of Betty & Co.

(4 marks)

(b). Sedap Sdn. Bhd. is a family owned business with over 50 employees. Under the provisions of the Companies Act 1965 the company is required to have its financial statements audited by an approved company auditor.

The owner of Sedap Sdn. Bhd., Rekha, has some book-keeping experience. She personally prepared the company's financial statements. She does not understand why the financial statements should be audited by an approved company auditor

Rekha discussed the matter with Ahmad, a partner in a public accounting firm and asked Ahmad to explain why an audit is considered important.

Required:

i.) Describe the objectives of an audit.

(5 marks)

ii.) Identify five ways in which an independent audit may be beneficial to Sedap Sdn. Bhd.

(5 marks)

(TOTAL: 20 MARKS)

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